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SUBJECT: U.S.-ITALY DUAL USE EXPORT CONTROL CONSULTATIONS,
JUNE 23-24, 2004

REF: A. ROME 2489

[1](#)B. 03 ROME 3842

Classified By: Acting Economic Minister Counselor Kathleen Reddy for reasons 1.5 (b) and (d)

Summary -----

[1](#)1. (S) On June 23, 2004, U.S. and Italian government delegations held consultations on a range of export control and technology transfer issues, as a follow-up to discussions held in July 2003. Both sides appeared satisfied with the quality of the information exchange. Discussion included the EU/China arms embargo, sensitive Italian exports to Iran, Alenia Spazio contacts with China, and the Italian Cosmo-Skymed remote sensing satellite project.

[1](#)2. (S) The Italian delegation emphasized Italy's demonstrated willingness to impede export of concern to Iran; however, the limited flexibility in this regard under Italian law continues to persuade Italy that a multilateral approach to controlling such exports be explored within the Wassenaar Arrangement. Both delegations emphasized the importance of effective controls on intangible transfers of technology, though the GOI noted the need to strengthen its efforts on enforcement and compliance of existing Italian law and regulations. The U.S. briefed Italy on our policy regarding the licensing of synthetic aperture radar data and imagery, while Italy countered with details of its Cosmo Skymed satellite program, which is intended primarily for military/civilian government use, but will also provide coarser resolution imagery for commercial use.

[1](#)3. (S) Top executives from Italian firm Alenia Spazio (AS) joined the government delegation for a discussion of current projects of interest to the company in China, also underscoring their frustration at not obtaining more sub-contracting work with NASA. On June 24, in visits to four Italian firms participating in the Joint Strike Fighter program, the U.S. delegation emphasized the importance of effective export controls and were briefed on each company's operations, including their measures to protect sensitive technologies.

Participants -----

[1](#)4. (U) U.S.: Robert Maggi, Managing Director, Defense Trade Controls (PM/DTC); Ann Ganzer, Director, Office of Defense Trade Controls Policy (PM/ DTCP); J. Christian Kessler, Director, Office of Export Controls and Conventional Arms Nonproliferation Policy (NP/NPC/ECNP); Jim Schwenke, International Security Policy, OSD; Scott Kilner, Minister-Counselor for Economic Affairs, U.S. Embassy Rome; John Finkbeiner, Economic Officer, U.S. Embassy Rome; Todd Ebitz, Political-Military Officer, U.S. Embassy Rome; Theodore Siggins, Assistant Customs Attache, U.S. Embassy Rome.

[1](#)5. (U) Italy: Carlo Tripepi, Nonproliferation Coordinator, Directorate General for Economic and Financial Cooperation (DGCE), MFA; Diego Ungaro, Director, Office of Defense Industry and Sensitive Technology Transfers, MFA; Federica Ferrari Bravo, Office of Persian Gulf Affairs, MFA; Gianluca Grandi, Office of East Asian Affairs, MFA; Jacobo Martino, Office of Science Affairs, MFA; Massimo Goti, Director General for Production Development, Ministry of Productive Activities (MPA); Aldo Doria, Director, Office of High Technology Products, MPA; Alfredo Cuzzoni, Expert on the Interministerial Consultative Committee on Dual-Use Export Controls, MPA; Giulio De Martino, Expert on the Interministerial Consultative Committee on Dual-Use Export Controls, MPA; Alfonso Spatola, Consultant, MPA; Giuseppe Bernardis, Director, Office of Research and Development, MOD; Roberto Leonardi, Director, Cosmo-Skymed Program Office, MOD; Carlo Magrassi, Deputy Director, Office of Armament Policy, MOD; Renato Genovesi, Office of Information and Security, Defense General Staff; Luca Fontana, Office of Information and Security, Defense General Staff; Arnaldo Capuzzi, Italian Space Agency (ASI); Emilio Delfini, Office for Coordination

of Armament Production, Presidency of the Council of Ministers.

16. (U) Alenia Spazio: Maurizio Tucci, CEO; Antonino Simeone, Deputy General Director; Paolo Piantella, Engineer.

17. (SBU) In opening the consultations, Tripepi and Maggi noted longstanding U.S.-Italy cooperation on security issues, industrial development, and the proper use and transfer of technology. Since the bilateral consultations in July 2003 (see ref B), GOI and USG officials had met on several occasions to continue the dialogue on export controls. This meeting reflected both governments' commitment to cooperate on creating strong export controls that nevertheless provided our respective companies with the ability to market effectively their high technology products. The consultations initiated with U.S. views on recent EU efforts that could lift the EU arms embargo on China (discussion reported in ref A).

Sensitive Italian Exports to Iran

18. (S) Kessler initiated the discussion on the export of fast boats and related items to Iran by noting USG appreciation for recent steps the GOI had taken to forestall delivery of a boat that had previously been purchased by an Iranian entity. Kessler observed that Iran continued to pursue development of a fleet of fast patrol boats for use in the Persian Gulf. However, Iran was now concentrating on the acquisition abroad of individual boat components rather than fully finished boats, as had been the case with the boats Iran imported from the Italian firm FB Design. The U.S. would continue to raise its concerns about exports that improved Iran's naval capabilities, with Italy as well as other countries exporting any items that might augment those capabilities.

19. (S) Tripepi noted that the legal procedure used to inhibit the most recent patrol boat shipment to Iran had been "not very elegant," in that Italy essentially had to improvise an ad hoc procedure to stop the shipment. Nevertheless, this action demonstrated Italy's cautious approach to trade with Iran. Tripepi added that the GOI interagency Consultative Committee on Dual-Use Exports regularly considers a large number of licenses for dual-use exports to Iran. The committee uses Italian catch-all regulations to impede such exports, provided they meet the Italian legal requirement that the export in question could contribute to WMD development. Tripepi pointed to the GOI's recent denial of an export license for a small shipment of de-greasing chemicals destined for the Iranian DIO as evidence of Italy's vigilance on this issue.

110. (S) The MPA's Aldo Doria reminded participants that Italian law forbids embargo lists aimed at a specific country that is not the subject of a multilateral embargo, though EU regulations do allow individual member states to make certain categories of exports subject to licensing restrictions. He added that the GOI was studying the legal means by which the UK had imposed export restrictions on Iran and Iraq in 2002, though he surmised that those restrictions could not technically have been country-specific in order to remain within EU rules. Tripepi said that Italy's limited ability to use catch-all provisions, as well as the various nationalities of the firms exporting to Iran, continued to suggest the need for the Wassenaar Agreement to play a stronger role in coordinating an approach to the problem. Kessler responded that during its 2003 Plenary, the Wassenaar Agreement had agreed to a catch-all provision for dual-use items destined for military end-uses/end-users in countries subject to embargoes. However, Wassenaar -- like national governments -- had found the matter of preventing exports of essentially civil items for military applications of concern to be a difficult topic, one perhaps best addressed case-by-case or on a national basis.

Alenia Spazio and China

11. (S) Alenia Spazio (AS) CEO Maurizio Tucci and other senior AS officials joined the government delegations for an

update on the company's involvement with the PRC. Tucci stated that since our bilateral consultations in July 2003, AS has not pushed strongly to increase its business ties with the Chinese space sector, though the Chinese continued to encourage closer ties with the company. AS has allowed Chinese scientists to visit its facilities in Italy (Tucci emphasized that the company's security controls prevent such visitors from seeing sensitive items and equipment), and Tucci himself accompanied an EU delegation to China in March. These contacts have increased doubts within AS of its ability to do meaningful business with the Chinese. Tucci said the

Chinese appear to be making great strides in developing space technologies. China now looks to firms like Alenia only for the most advanced technology, including technology for developing data relay satellites, synthetic aperture radar satellites, and other optical-related technologies -- but Tucci said AS has told the Chinese that the company is very limited in its abilities to cooperate on such technologies. The Chinese, however, express little interest in the less-advanced technology that AS was willing to supply them, Tucci added.

12. (S) In the course of the discussion, Tucci specifically mentioned that AS was considering a Chinese proposal that would involve the provision of payload equipment hardware for China's data relay satellite program, a contract worth approximately USD 6 million. Tucci added that the equipment did not/not involve the two areas of DRS work that the USG had indicated would cause us concern (regarding optical cross-linking capabilities and improvements to China's DFH-3 satellite bus).

13. (S) The overall thrust of Tucci's message was that AS increasingly viewed the Chinese market as a dead end -- China doesn't want the less advanced technology that AS is willing to supply, and AS refuses to provide China with more advanced technology, in part due to U.S. concerns. Tucci made clear that, with the Chinese market looking even more unfavorable to the company than last year, and with AS committed to working within the parameters of U.S. concerns when it comes to business in China, the company now looked more than ever for further business opportunities with the U.S. He mentioned a pre-feasibility study being worked with Boeing on a crew escape vehicle for the NASA Mars project, but said the company was concerned about restrictions on non-U.S. company work on this and similar projects of interest to AS. Maggi and Ganzer promised to follow up with NASA regarding AS's concerns on the Mars project, and also said they would be willing to inquire about other specific contracts the company was pursuing. The MOD's Magrassi said that AS's concerns epitomize the difficulties encountered by Italian high-tech firms in winning contracts for U.S. projects -- Italian firms want to work with the U.S., but need to see results for their efforts. Maggi said the U.S. understood well the GOI's concerns, though he noted that non-U.S. companies around the world sometimes inaccurately perceive the reasons they may lose out on a contract.

Intangible Transfers of Technology (ITT)

14. (SBU) Maggi suggested that the Joint Strike Fighter (JSF) program provided a good case study for discussing ITT, noting that the USG discusses the importance of controlling ITT with all companies participating in JSF, U.S. as well as non-U.S. companies. The MOD's Bernardis agreed that JSF was an accurate reference point, noting that Alenia Aeronautica engineers working at Lockheed Martin facilities in Texas had specifically complained to the GOI that their engineers were being denied access to certain technologies that had been cleared for release to Italy, and said some complained of doing only photocopying and other menial tasks not commensurate with their skills. The MFA's Ungaro said the GOI believed Lockheed Martin was interpreting export license restrictions too narrowly, reportedly at the behest of DOD. Maggi acknowledged that U.S. firms sometimes create unwarranted obstacles to non-U.S. partners, and asked the GOI to provide additional information so that his office could further investigate, but cautioned that Alenia Spazio is not the GOI, and technologies authorized for release to the Government of Italy are not automatically eligible for

release to Italian companies.

15. (SBU) Violations of ITT controls are difficult to detect, Maggi noted, adding that the USG repeatedly emphasizes these controls in its dialogue with U.S. firms, and levies a significant number of fines in cases where unlicensed ITT is proven. The USG is devoting increased resources to compliance, including the addition of computer experts who can more readily detect ITT. The U.S. is focusing increasingly on the marking of electronic data, and is hopeful that technology to create permanent marking of data will be forthcoming. Maggi noted that German government officials recently had told him that German customs enforcement officers perform periodic in-depth auditing of German firms to ensure compliance with export controls, and asked if the GOI performs similar audits. Tripepi said the Italian Guardia di Finanza (customs police) occasionally inspects companies, though he said export control officials rely more on Italian intelligence officials for such information. Fines against companies are levied by regional prosecutors in cases brought by the Guardia di Finanza. Ungaro addressed U.S. concerns regarding Italy's ability to control ITT by noting that the GOI needs to strengthen its efforts on outreach, enforcement and compliance -- existing

Italian laws and regulations already require the licensing of all ITT, both dual-use and munitions. The involvement of regional prosecutors and customs police, and the lack of inspectors within the MFA (responsible for munitions licenses) and MPA (responsible for dual-use licenses), complicates compliance efforts in Italy, added Ungaro.

116. (SBU) Maggi noted that the U.S. was interested in furthering its dialogue with the GOI regarding both countries' ITT controls, to include the completion by the MFA and the Department of State as early as possible of the matrix on Italian and U.S. export control regulations. Maggi noted the progress on the matrix since last summer, and suggested the MFA and State Department hold a DVC to finish it, perhaps before the end of the summer. The Italian side agreed to work towards timely completion of the matrix. Kessler noted that the protection of ITT is being discussed on a multilateral basis within the Wassenaar Agreement framework, and that there may be opportunity for Italy and the U.S. to work together in advancing that effort.

Cosmo Skymed

117. (C) Kessler opened the session on Italy's Cosmo Skymed satellite program by noting strong U.S. interest in the development of such remote sensing capabilities, and our wish to increase information sharing among those countries working in this area. Kessler emphasized the fundamental differences between synthetic aperture radar (SAR) systems (such as those used in Cosmo Skymed) and electro-optical systems, both in the way each system functions as well as the nature of the data produced. Bilateral discussions on remote sensing with France and with Canada had revealed similar perspectives, but varying approaches, regarding the licensing for commercial use of satellite imagery and data. The U.S. had recently begun discussions with Germany, and now hoped to start a dialogue with Italy as well. Kessler provided the GOI with a paper outlining U.S. rationale for licensing commercial SAR remote sensing space systems.

118. (C) The MOD's Leonardi, supported by ASI's Capuzzi, summarized certain aspects of the Cosmo Skymed program, which he noted includes the MOD as its priority customer, with GOI civilian users also viewed as likely customers (though civilian agencies would not have access to the higher resolution imagery or that collected for national reconnaissance purposes). Though it recognizes potential commercial uses for remote sensing data, the GOI is not presently focused on commercialization of Cosmo Skymed. The program is being developed in conjunction with France (primarily the French MOD), but is fully financed by the GOI. The GOI also is interested in expanding cooperation with Argentina. ASI has the lead role for the GOI, working closely with MOD. Leonardi said the first of four satellite launches is scheduled for the first half of 2006, with additional launches following every eight months. He noted that the

project's ability to secure continued GOI funding has been difficult, adding that 80 percent of the Cosmo Skymed budget is provided through the Italian Research Ministry (which oversees the Italian Space Agency - ASI), while the Italian MOD finances the remaining 20 percent.

Company Visits

119. (SBU) Maggi and Ganzer followed the bilateral government discussions with a visit on June 24 to four key Italian defense firms involved in the Joint Strike Fighter program: Marconi, Galileo, Datamat, and Elettronica. Those visits were preceded by a meeting at MOD, where Major General Bernardis (who attended the June 23 discussions) and Lt. General Carmine Pollice provided background on the four companies and their involvement in the JSF program, as well as recent Italian parliamentary queries regarding JSF. (Pollice also inquired about recent congressional attempts to strengthen U.S. Buy America provisions, as well as the current status of the pending U.S. tanker aircraft contract.) At each stop Maggi explained U.S. policy on trade controls and the role of State's Defense Trade Controls office in implementing those controls. Representatives from all four firms briefed Maggi on their cutting-edge technologies, as well as their measures to protect sensitive information. All asked him to return for more extensive discussions and for visits to their production facilities.

Comment

120. (SBU) Both the U.S. and the Italian delegations welcomed the continued open exchange of information on dual-use export controls, as initiated in July 2003 and continued since then through several meetings involving relevant USG and GOI officials. Italy continues to view this dialogue as a means

to further increase commercial cooperation between U.S. and Italian firms. The U.S. delegation emphasized that increased cooperation was contingent on continued GOI efforts to strengthen controls, in particular the enforcement and compliance of ITT controls. Given the large amount of information exchanged in the past year, we believe that our continued dialogue could take place in smaller settings on a more ad hoc basis, including through the use of DVC when possible.

21. (S) Regarding discussion of specific issues, Alenia Spazio appears to remain cognizant of the parameters of future cooperation with China, as agreed in earlier U.S.-Italy diplomatic exchanges. The company clearly hopes that increased contracts with the U.S. will be the result of such cooperation. For business reasons, however, we should expect AS to maintain its contacts with Chinese space officials. Recent actions in the Iran boats case demonstrate the flexibility that the GOI can find under certain circumstances, though our interlocutors continue to emphasize the legal constraints that inhibit a more straightforward approach to halting worrisome shipments to countries of concern. We can expect the GOI to continue to seek a multilateral approach to the issue through the Wassenaar Agreement. On Cosmo Skymed, the GOI appears to be open to greater information sharing, and welcomed the example of the U.S.'s considerable efforts to craft an effective security policy that also provides the opportunity for considerable commercialization of SAR data and imagery.

22. (U) This cable was cleared by Washington participants in the delegation.

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